

Ms. Trish Kelly, Director of Reimbursement  
Integrated Health Services, Inc.  
The Highlands  
910 Ridgebrook Road  
Sparks, Maryland 21152

Re: AC# 3-MRH-J7 – Magnolia Manor - Rock Hill, Inc.

Dear Ms. Kelly:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate changes shown on Exhibit A. You will be notified of repayment terms by that agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**MAGNOLIA MANOR - ROCK HILL, INC.**

**ROCK HILL, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1998  
AC# 3-MRH-J7**

**REPORT ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1998	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1998 THROUGH NOVEMBER 30, 1998	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS DECEMBER 1, 1998 THROUGH SEPTEMBER 30, 1999	B-2	5
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1997	C	6
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	11
COMMENTS AND RECOMMENDATIONS		13

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 19, 1999

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor - Rock Hill, Inc., for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor - Rock Hill, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis sections of this report, and the Comments and Recommendations section of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor - Rock Hill, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
October 19, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**MAGNOLIA MANOR - ROCK HILL, INC.**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1998  
AC# 3-MRH-J7

	<u>10/01/98-</u> <u>11/30/98</u>	<u>12/01/98-</u> <u>09/30/99</u>
Interim reimbursement rate (1)	\$88.57	\$89.32
Adjusted reimbursement rate	<u>83.47</u>	<u>84.22</u>
Decrease in reimbursement rate	\$ <u><u>5.10</u></u>	\$ <u><u>5.10</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1998 Through November 30, 1998  
AC# 3-MRH-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.03	\$48.65	
Dietary		8.06	9.44	
Laundry/Housekeeping/Maint.		<u>6.86</u>	<u>7.70</u>	
Subtotal	\$ <u>4.61</u>	55.95	65.79	\$55.95
Administration & Med. Rec.	\$ <u>3.83</u>	<u>6.55</u>	<u>10.38</u>	<u>6.55</u>
Subtotal		62.50	\$ <u>76.17</u>	62.50
<u>Costs Not Subject to Standards:</u>				
Utilities		2.00		2.00
Special Services		1.89		1.89
Medical Supplies & Oxygen		3.32		3.32
Taxes and Insurance		1.47		1.47
Legal Fees		<u>.03</u>		<u>.03</u>
<b>TOTAL</b>		\$ <u>71.21</u>		71.21
Inflation Factor (3.60%)				2.56
Cost of Capital				7.70
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.49
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.35)
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>83.47</u>

**MAGNOLIA MANOR - ROCK HILL, INC.**

Computation of Adjusted Reimbursement Rate

For the Contract Periods December 1, 1998 Through September 30, 1999  
AC# 3-MRH-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.03	\$48.65	
Dietary		8.06	9.44	
Laundry/Housekeeping/Maint.		<u>6.86</u>	<u>7.70</u>	
Subtotal	<u>\$4.61</u>	55.95	65.79	\$55.95
Administration & Med. Rec.	<u>\$3.83</u>	<u>6.55</u>	<u>10.38</u>	<u>6.55</u>
Subtotal		62.50	<u>\$76.17</u>	62.50
<u>Costs Not Subject to Standards:</u>				
Utilities		2.00		2.00
Special Services		1.89		1.89
Medical Supplies & Oxygen		3.32		3.32
Taxes and Insurance		1.47		1.47
Legal Fees		<u>.03</u>		<u>.03</u>
<b>TOTAL</b>		<u>\$71.21</u>		71.21
Inflation Factor (3.60%)				2.56
Cost of Capital				7.70
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.49
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.35)
CNA Add-On				.75
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$84.22</u>



**MAGNOLIA MANOR - ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MRH-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,652,750	\$ -	\$ 27,682 (3) 58,000 (5) 2,384 (5) 1,696 (6) 37 (8)	\$1,562,951
Dietary	312,764	-	5,743 (5) 105 (6)	306,916
Laundry	52,669	-	-	52,669
Housekeeping	144,698	-	-	144,698
Maintenance	65,675	-	300 (2) 1,225 (5) 257 (8)	63,893
Administration & Medical Records	307,342	-	18,961 (4) 5,247 (5) 928 (5) 14,217 (7) 18,362 (8)	249,627
Utilities	80,807	-	4,419 (3) 193 (8)	76,195
Special Services	81,545	2,718 (9)	2,774 (5) 9,350 (8)	72,139
Medical Supplies & Oxygen	138,450	245 (9)	8,378 (3) 3,939 (6)	126,378

**MAGNOLIA MANOR - ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MRH-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	56,731	-	806 (8)	55,925
Legal Fees	1,386	-	62 (8)	1,324
Cost of Capital	299,117	4,409 (1)	3,142 (8)	293,510
			<u>6,874 (10)</u>	
Subtotal	3,193,934	7,372	195,081	3,006,225
Ancillary	57,147	-	-	57,147
Non-Allowable	64,519	300 (2)	2,963 (9)	256,637
		40,479 (3)		
		18,961 (4)		
		76,301 (5)		
		5,740 (6)		
		14,217 (7)		
		32,209 (8)		
		<u>6,874 (10)</u>		
Total Operating Expenses	<u>\$3,315,600</u>	<u>\$202,453</u>	<u>\$198,044</u>	<u>\$3,320,009</u>
TOTAL PATIENT DAYS	<u>38,095</u>	<u>-</u>	<u>-</u>	<u>38,095</u>
TOTAL BEDS	<u>106</u>			

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-MRH-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 16,388	
	Cost of Capital	4,409	
	Other Equity	20,903	
	Fixed Assets		\$ 41,700
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	300	
	Maintenance		300
	To properly charge expenses applicable to the prior period HIM-15-1, Section 2302.1		
3	Nonallowable	40,479	
	Nursing		27,682
	Utilities		4,419
	Medical Supplies & Oxygen		8,378
	To disallow expenses not adequately documented and remove prior period expense HIM-15-1, Sections 2302.1 and 2304		
4	Nonallowable	18,961	
	Administration		18,961
	To disallow administration-purchased services due to lack of documentation HIM-15-1, Section 2304		
5	Nonallowable	76,301	
	Nursing		58,000
	Restorative		2,384
	Dietary		5,743
	Maintenance		1,225
	Administration		5,247
	Medical Records		928
	Therapy		2,774
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-MRH-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	5,740	
	Restorative		1,696
	Dietary		105
	Medical Supplies & Oxygen		3,939
	To disallow expenses not adequately documented HIM-15-1, Section 2304		
7	Nonallowable	14,217	
	Administration		14,217
	To disallow undocumented interest expense HIM-15-1, Section 2304		
8	Nonallowable	32,209	
	Nursing		37
	Maintenance		257
	Administration		18,362
	Utilities		193
	Taxes, Insurance & Licenses		806
	Therapy		9,350
	Legal		62
	Cost of Capital		3,142
	To disallow home office expenses not adequately documented HIM-15-1, Section 2304		
9	Medical Supplies & Oxygen	245	
	Therapy	2,718	
	Nonallowable		2,963
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Nonallowable	6,874	
	Cost of Capital		6,874
	To adjust capital return to allowable State Plan, Attachment 4.19D		

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-MRH-J7

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Memo Adjustment: To increase total square feet by 8,251 from 23,079 square feet to 31,330 square feet		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>239,744</u>	\$ <u>239,744</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MRH-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>106</u>
Deemed Asset Value	3,611,314
Improvements Since 1981	456,323
Accumulated Depreciation at 9/30/97	<u>(903,427)</u>
Deemed Depreciated Value	3,164,210
Market Rate of Return	<u>0.067</u>
Total Annual Return	212,002
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	212,002
Depreciation Expense	81,952
Amortization Expense	-
Capital Related Income Offsets	(444)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	293,510
Total Patient Days (Actual Days)	<u>38,095</u>
Cost of Capital Per Diem	\$ <u><u>7.70</u></u>

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-MRH-J7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.53
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.52</u>
Reimbursable Cost of Capital Per Diem	\$ 7.70
Cost of Capital Per Diem	<u>7.70</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

## **COMMENTS AND RECOMMENDATIONS**

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

The provider's accounting records did not adequately support expenses claimed. Many of the items requested were never made available. Some of the items include: payroll registers, the cash receipts journal, census records, audited worker's compensation premiums, support for working trial balance adjustments, invoices, general ledger journal entry support, and all records related to the home office expenses.

HIM-15-1, Section 2304 states:

“Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records, and original evidences of cost . . . which pertain to the determination of reasonable cost, capable of being audited.”

By not maintaining sufficient documentation, to support cost claimed, the provider overstated expenses.

We recommend the provider maintain detailed records which sufficiently support expenses claimed and provide the Medicaid auditors access to all requested records in a timely fashion.